Appendix B
Report to the Technology Services Board

STATE OF CALIFORNIA
DEPARTMENT OF TECHNOLOGY SERVICES

Report to the Technology Services Board

For the Fiscal Year Ended June 30, 2008

STATE OF CALIFORNIA
DEPARTMENT OF TECHNOLOGY SERVICES

Report to the Technology Services Board
For the Fiscal Year ended June 30, 2008

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To the Technology Services Board
Department of Technology Services
Rancho Cordova, California

We have audited the financial statements of the State of California Department of Technology Services (Department), an internal service fund of the State of California, as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. Professional standards require that we provide you with certain information related to our audit, which is included in the Required Communications section of this report.

In planning and performing our audit of the financial statements of the Department for the fiscal year ended June 30, 2008, we considered the Department's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on internal control.

During our audit we became aware of a certain matter that represents an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our current year recommendation and the status of our prior year recommendations.

This letter does not affect our report dated October 23, 2008, on the financial statements of the Department.

We would like to thank the Department's management and staff for the courtesy and cooperation extended to us during the course of our engagement.

The accompanying report is intended solely for the information and use of the Technology Services Board and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
February 2, 2009

STATE OF CALIFORNIA
DEPARTMENT OF TECHNOLOGY SERVICES

Report to the Technology Services Board
Required Communications
For the Fiscal Year Ended June 30, 2008

I. Our Responsibilities Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated August 14, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Department. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 29, 2008.

II. Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Department are described in Note 1 to the financial statements. Effective July 1, 2007, the Department implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). We noted no transactions entered into by the Department during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimate of the depreciation and amortization of capital assets and intangible assets, accrued compensated absences, and OPEB expense and unfunded OPEB obligation.

II. Significant Audit Findings (Continued)

Management's estimate of depreciation and amortization is based on the estimated useful lives of the related assets. Management's estimate of accrued compensated absences is based on the accrued vacation hours and hourly rate of each employee at year-end. Management's annual OPEB expense and unfunded OPEB obligation are based on the estimated costs of providing benefits to the Department's current and retired employees and spouses, as determined by the State Controller's Office, using actuarial methods and assumptions prescribed by GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure regarding the Department's OPEB plan in Note 9 to the basic financial statements. The content of the disclosure was determined in accordance with the provisions of GASB Statement No. 45.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

The recording of amounts payable to vendors for capital assets and annual licensing expenses in the amounts of $1,021,709 and $699,078, respectively.

STATE OF CALIFORNIA
DEPARTMENT OF TECHNOLOGY SERVICES

Report to the Technology Services Board
Required Communications (Continued)
For the Fiscal Year Ended June 30, 2008

II. Significant Audit Findings (Continued)

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 23, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Report to the Technology Services Board
Current Year Recommendation
For the Fiscal Year Ended June 30, 2008

I. RECEIVING PROCEDURES AND SEGREGATION OF DUTIES

We noted that procedures for the receiving activities of the Department's primary receiving facility are not properly documented. We also noted that inadequate segregation of duties exist between receiving, recording and the distribution functions. We recommend a comprehensive procedure manual be prepared detailing procedures and responsibilities of the Department's receiving personnel that are adequately segregated.

Management Response:

Management is in agreement. The Department will prepare a procedures manual detailing the responsibilities of the various warehouse staff, with a focus on the appropriate segregation of duties. The manual will be complete by June 30, 2009.

STATE OF CALIFORNIA
DEPARTMENT OF TECHNOLOGY SERVICES

Report to the Technology Services Board
Status of Prior Year Recommendations
For the Fiscal Year Ended June 30, 2008

I. MANUAL JOURNAL ENTRIES

We noted that the manual journal entries are prepared and posted by the same individual. Peoplesoft modules are designed to allow journal entries to be prepared and posted by separate individuals; however, this feature is currently disabled. This places the Department at risk of inappropriate or inaccurate changes to the general ledger. We recommend that manual journal entries be prepared and posted by separate individuals to ensure adequate segregation of duties.

Management Response:

Currently the General Ledger Supervisor reviews journal entries and supporting information after the entries are prepared and before they are posted to the system. The Department agrees to amend the existing procedures and use the system to separate the preparing and posting of entries in the system. Accounting staff will work with the technical staff to ensure the system securities are in place by February 2008.

Status:

In efforts to implement the recommendations, it was determined that the Department's current version of Peoplesoft does not contain the security feature requiring separate input and posting of journal entries. To mitigate the risk of material misstatement to the financial statements resulting from improper posting of journal entries, the Department has implemented procedures requiring supervisor review and approval batch reports summarizing posted manual journal entries. As a result of the implementation of the procedures described above, we consider this matter to be resolved.

II. CAPITAL ASSETS

During our review of capital assets, it was noted that insufficient documentation exists to support the calculation of capitalized amounts. It was also noted that fully depreciated capital assets are being removed from accounting records without evidence of disposal or obsolescence. We recommend that source documents for capitalized amounts include calculations supporting the amounts recorded in the accounting records. We also recommend that the Department remove capital assets from the accounting records only upon appropriate approval and that it maintain sufficient documentary evidence supporting the disposal.

Management Response:

The Department agrees. Accounting will maintain documentation to support the calculation of capitalized amounts from vendor invoices. Accounting will only delete capital assets from the accounting records when supporting documents provide documentation of equipment sale or disposal.

Report to the Technology Services Board
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2008

II. CAPITAL ASSETS (CONTINUED)

Status:

The Department has improved their process for identifying capital assets. It is required that each invoice is analyzed by the staff analyst who manages the assets and depreciation records. The analyst indicates on each invoice which items are capital assets and tracks the assets in the Department's capital assets management system, Remedy. It was noted that documentation improved as a result of implementing new procedures to address the audit recommendation, however, it was also noted that there were inconsistencies in the classification of capital related costs. Furthermore, it was noted that the disposal of capital assets are not being communicated to the fiscal services department in a timely manner. The status of this matter will be reviewed in fiscal year 2009.

III. EMPLOYEE ADVANCES

During our review of outstanding employee advances, it was noted that advances are not being monitored and repayment is not collected in a timely manner. Of the $32,248 balance at June 30, 2007, $7,071 is outstanding over a year. We recommend that the Department actively monitor advances and follow its policies related to advances collection contained in its payroll procedures.

Management Response:

The Department agrees there should be timely collection of outstanding employee advances. The Human Resources Branch will send out accounts receivable letters to employees who receive a salary advance within 30 days of receipt of notification from the State Controller's Office. The Human Resources Branch is developing procedures to document the process.

Status:

The Department's balance of outstanding employee advances at June 30, 2008 was $31,917. However, shortly after the fiscal year-end, the balance on the same outstanding advances was reduced to $20,287 as a result of the Department's collection efforts. The Department has updated and improved it's procedures in collecting these accounts from employees. The Human Resources Branch sends letters to employees notifying them of an outstanding balance and provides payment options. The employees are given fifteen days to respond to the letter. If employees do not respond, repayments are set up through payroll deduction. There are a limited number of receivables from employees that are retired or no longer with the Department. In these cases, the Department is pursuing collection through offsets with the Franchise Tax Board. As a result of the implementation of the procedures described above, we consider this matter to be resolved.

STATE OF CALIFORNIA
DEPARTMENT OF TECHNOLOGY SERVICES

Report to the Technology Services Board
Status of Prior Year Recommendations (Continued)
For the Fiscal Year Ended June 30, 2008

IV. VACATION HOURS

During our review of compensated absences, we noted that 111 employees accrued vacation hours in excess of the State's maximum allowed amount of 640. These employees accumulated a total of 20,716 hours in excess of the State's policy. We recommend that the Department monitor vacation balances and follow established policies to control future excessive accruals of vacation hours.

Management Response:

The Department will monitor employee vacation hours and recommend supervisors encourage staff to use vacation hours in excess of 640 hours to the extent possible while maintaining business needs.

Status:

The Department continues to monitor employee vacation hours and recommend that supervisors encourage staff to use vacation hours. On December 12, 2008, the Department issued letters to each Department deputy director concerning employees with projected leave balances over the 640 allowable maximum. Each employee with projected excess balances filed a plan to use the hours with Human Resources by December 31, 2008. The Department is requiring a plan be kept on file for each employee with excess hours. As a result of the implementation of the procedures described above, we consider this matter to be resolved.

V. REGULAR INVENTORY OF CAPITAL ASSETS (2006)

During our review of capital assets, we noted that the Department maintains a separate subsidiary ledger, which has different assets listed than what is listed on the capital assets listing from the California State Business Unit. In addition, several assets recorded on the Business Unit's capital asset subsidiary ledger do not appear on the Department's subsidiary ledger. According to policy, before disposing of property, the Business Services Unit should be contacted to ensure proper approval and disposal of equipment. The Business Services Unit should prepare the Property Survey Reports (STD. 152), when the disposal of the property occurs, or Transfer of Location of Equipment (STD. 158), when the property is being transferred to another state department.

In the past two years, there has been no reconciliation between the Department's inventory of capital assets and the Business Unit's records. According to the Department's policy, an inventory count should be conducted annually. Because no physical inventory of the capital assets has been performed, it is uncertain whether or not certain assets still exist or are impaired. We recommend that the Department conduct regular physical inventories that would verify the existence and state of capital assets and update its capital asset subsidiary ledger as necessary. This subsidiary ledger should in turn be reconciled the Department's general ledger and to California State Business Unit in order to ensure accurate reporting of capital assets on the financial statements.

V. REGULAR INVENTORY OF CAPITAL ASSETS (2006) (CONTINUED)

In addition, we recommend the capital assets inventory be tagged with a number that is recorded in both the Department's and the Business Unit's subsidiary ledger. This process would improve management's ability to track the existence and possible impairment of capital assets.

Management's Response:

Management is in agreement. Effective with fiscal year ended June 30, 2007, the Department has consolidated all asset records to one system. Items purchased by the department are recorded into the Remedy system by the Business Service staff. The Business Service staff also tag each asset with an inventory number when items are received and before they are put into service. The Department has a policy in place for Business Service staff to prepare the Property Survey Reports when equipment is disposed or the Transfer of Location of Equipment form when property is transferred. The Department plans on conducting a statewide asset inventory by the end of the calendar year. At the time of the inventory the department will reconcile the asset records with the financial records.

Status:

Due to various fiscal constraints, an outside vendor could not be contracted to conduct the statewide inventory of assets. However, Business Services staff conducted a physical inventory of capital assets that was completed in December 2007. Three Department Business Services staff, with the assistance of staff from various units within the Department, performed the physical count. The reconciliation is being performed by Business Services staff. Historical research and database comparisons are in process. Due to budgetary restraints, staffing shortage and project interruptions, both the reconciliation and the policy and procedure portion of this task remain incomplete. The Department anticipates completion by August 2009. The status of this matter will be reviewed in fiscal year 2009.

VI. AGING OF "DUE FROM OTHER FUNDS" (2006)

During our examination of the receivable "due from other funds" account, we noted that $28,881,000 of the total $71,337,000 was outstanding for over 90 days as of June 30, 2006. In addition, another $12,463,000 was outstanding for over 60 days as of June 30, 2006. The total aged receivables over the allowable 60-days as established by the Department represent $41,344,000 or 58% of the total amount of the receivable. Although, the aging of the receivables does not indicate an issue of collectibility (since the amounts are due from other State of California funds), it does significantly affect the Department management's ability to properly manage cash flow, including timely payment of operating & nonoperating expenses. The Department relies entirely on its revenue collections to maintain a 60-day working capital reserve. We recommend that Department management continue to communicate payment terms with the various customers that historically have not paid in accordance with such terms.

VI. AGING OF "DUE FROM OTHER FUNDS" (2006) (CONTINUED)

Management's Response:

Management is in agreement. Collection of outstanding accounts receivables is critical to the operation of our department. The Department's standard process for collection parallels the State guidelines. The Department sends out invoices and follows up with three collection letters at 30 day intervals. The Department also maintains contact with its customers to promote timely payment. Regardless of the Department's efforts, over 50% of our customers are significantly late in making payments which is a major concern of the Department.

Status:

On December 8, 2008, the Technology Service Board approved a mandatory direct transfer process for the Department. Under the mandatory direct transfer process, DTS will continue to produce and send monthly invoices with details of the actual usage of resources consumed by each customer agency, as it presently does. DTS will notify the State Controller's Office to transfer the amount billed to each customer to the DTS Revolving Fund. The reconciliation of any disputes will take place after the billing and payment. This process will assist the Department in collecting for services and reduce the outstanding amounts due from other State funds. The Department plans on implementing the mandatory direct transfer beginning July 1, 2009. The status of this matter will be reviewed in fiscal year 2009.

VII. REGULAR CHANGE IN PASSWORDS (2006)

Passwords used to access the Department's network and the PeopleSoft applications do not expire and there is no password configuration standard that is being enforced. This places the agency at an increased risk of unauthorized access to the network and financial data as well as all other electronic systems within the Department's network. We recommend that the Department formally adopt the Password Standards proposed by the Security Management Division as soon as possible and enforce an agency-wide password expiration period for network access and for financial application access.

Management's Response:

Management is in agreement. A password expiration period is currently not being enforced for either network or application access. The Department's network (Windows network) password expiration was deactivated during the Active Directory consolidation project. As of November 8, 2006, the Password Standards (Department of Technology Services Bulletin 3136), is being revised and will require that passwords for access to the network and servers expire after a period of 90 days. There is, however, no specific password standard governing access to the PeopleSoft application.

VII. REGULAR CHANGE IN PASSWORDS (2006) (CONTINUED)

VII. REGULAR CHANGE IN PASSWORDS (2006) (CONTINUED)

The Department's Security Management Division will work to develop and implement a Password Standard for the PeopleSoft application in the first quarter of calendar year 2007 and will work to ensure the password standard is enforced for both network and application access.

Status:

DTS network, Windows administrator accounts, and Database administrator accounts have passwords that are configured to expire after a period of 90 days. This is in agreement with the Department's Bulletin #3136.

According to the Department's Database Manager, the Windows administrator accounts are changed on a 90 day cycle. The SQL administrator accounts are tightly controlled (4 people) and changed frequently as the need for application installations sometimes require their use, and the passwords are changed to accommodate the installation.

Passwords used to access the Peoplesoft application do not expire, but the Department plans to enforce a password expiration period when a new version of PeopleSoft Tools is implemented in 2009. Original plans to enforce password expiration periods within the PeopleSoft application were delayed due to a lack of sufficient resources to complete the project in a timely manner. The status of this matter will be reviewed in fiscal year 2009.

VIII. DISASTER RECOVERY PLAN (2006)

The Department does not have a comprehensive business continuity and disaster recovery plan. A defined plan is needed to address how the Department would retrieve the Department's financial information and regain operations of the financial management system. A plan is also needed to define how the financial administrative units would operate in the event the financial management applications were unavailable for an extended period of time. Without a defined plan that has been thoroughly reviewed with all critical personnel and tested to ensure it is an operationally viable plan, the Department is at risk of losing the availability of financial data and the ability to conduct financial transactions in the event the financial management system were unavailable for an extended period. The Department Administrative Division, in conjunction with the Engineering and Operations Divisions should work to develop and implement a comprehensive business continuity and disaster recovery plan for the financial systems data and all financial applications. Once developed and implemented, the plan should be periodically tested to ensure its viability. All findings from the tests should be incorporated into updates to the plan.

VIII. DISASTER RECOVERY PLAN (2006) (CONTINUED)

Management's Response:

Management is in agreement. Although we do not have a plan for recovery of the Department's financial data in the event of a disaster, this is being addressed in the Continuity of Operations/Continuity of Government (COOP/COG) and an estimated completion date is scheduled for July 31, 2007. By this date management will have a comprehensive plan that covers the backup and recovery of all the Department's functions. The Governor's Office, OES and Agency are also aware of this date.

Status:

The Department continues to work on the Disaster Recovery Plan. The Department has identified the requirements for recovering the critical internal business functions in the Business Recovery Plan and the disaster recovery team is working to develop the Technical Recovery Plans (TRP). The TRP is the actual procedures for recovery and the communication plan that each business team prepares for their area. This effort is directly linked to the completion of the Service Continuity Mainframe Service (SCMS) project to provide the necessary infrastructure. The infrastructure to recover the DTS financial applications is part of the SCMS project. The Department Executive Staff decided to use different replication software than was originally planned which has delayed the implementation process. It is anticipated the Department will have the SCMS implemented by June 2009. The status of this matter will be reviewed in fiscal year 2009.

IX. TERMINATION POLICY AND COMPUTER ACCESS (2006)

While procedures are in place to ensure that network access is rescinded for personnel who terminate employment with the Department (regular employees, temporaries, contractors, interns), there are no formal review procedures (internal audit procedures) to ensure only active personnel have access to the Department's network and servers. Additionally, there are no formal procedures to ensure that access to the PeopleSoft application is terminated for these same terminated personnel. Having terminated employees with access to the financial applications places the financial data at risk and increases the likelihood of inappropriate or malicious activity taking place.

The Department Security Management Division should develop formal procedures and perform an audit as soon as possible over all user identification logons used for accessing the Department's computer network and PeopleSoft application. This should be done to ensure that no terminated employees, temporaries, contractors, or interns remain active.

IX. TERMINATION POLICY AND COMPUTER ACCESS (2006) (CONTINUED)

Management's Response:

Management is in agreement. The Department utilizes a custom application called Staff Movement that includes the exit clearance process. This application includes an automated notification to all areas of the department requesting access termination for departing employees. However, the application does not include automated deletion or disabling of application access. It is up to each of the areas to deactivate user codes. Security Management agrees that an audit has to take place and Security Management is in the process of establishing the guidelines for this audit. PeopleSoft application managers have not historically been included in the notifications from the Staff Movement application. The Security Management Division will work to ensure that the PeopleSoft application managers are notified of departing personnel in a timely manner, so that their access may be rescinded. The audit guidelines and the procedures for notification of the PeopleSoft application managers will be completed in the first quarter of calendar year 2007.

Status:

The Department now deletes employees' access to PeopleSoft when employment is terminated. PeopleSoft security personnel are now notified by the DTS Staff Movement application when employees terminate their employment. PeopleSoft security personnel immediately remove the terminated employee's PeopleSoft ID.

The audit guidelines and actual audits, however, have not yet been performed due to personnel changes within the Security Management Division.

We continue to stress, as first identified in our 2006 letter, that an audit be performed as soon as possible over all user identification logons used for accessing the Department's computer network and PeopleSoft application. This should be done to ensure that no terminated employees, temporaries, contractors, or interns remain active. The status of this matter will be reviewed in fiscal year 2009.

X. POLICY FOR PERIODIC REVIEWS (2006)

While authorization profiles have been established within the PeopleSoft application there is no policy requiring the periodic review of users and their authorizations to ensure they are up-to-date and enforce a proper segregation of duties. The Department Security Management Division should develop and implement a policy requiring the periodic review of user authorization roles within the financial applications to ensure they are up-to-date and enforce a proper segregation of duties.

Management's Response:

Management is in agreement. The Security Management Division is in the process of establishing a policy that will address this finding. The policy is scheduled for completion by March 2007.

Status:

Accounting management now performs yearly reviews of the PeopleSoft user security roles within the system to ensure compliance with required segregation of duties. Additionally, accounting management has also developed an accounting procedure outlining the process to be used in the yearly review. This process should be formally documented within an agency policy and procedure to ensure it consistently performed. The status of this matter will be reviewed in fiscal year 2009.

XI. PASSWORD PROTECTION – CONFIGURATION POLICY (2006)

The Department's current password policy does not require that passwords be used for both network or application access, nor does it define a minimum password configuration standard for application access. The lack of appropriate password management places the agency at an increased risk of unauthorized access to the system and the financial data. While this lack of a complete password configuration policy is being addressed with the development of formal Passwords Standards, it has yet to be issued to all the Department's functional users. The Department should make a concerted effort to adopt and issue the Passwords Standards policy as soon as possible. Upon issuing the policy, audits should be performed by the Security Management Division to ensure compliance.

Management's Response:

Management is in agreement. As addressed in Section III. REGULAR CHANGE IN PASSWORDS, the Password Standards (Department of Technology Services Bulletin 3136) has been revised as of November 8, 2006 and defines a password configuration standard for network and server access. A password standard, however, has not been implemented for application (PeopleSoft) access. The Department's Security Management Division will work to implement an application password standard and will establish procedures to ensure audits are performed to ensure compliance. These efforts will be completed in the first quarter of calendar year 2007.

Status:

The Security Management Division will begin to audit the enforcement of the access-related policies, including strong passwords, in the first quarter of 2009. Additionally, the Department will implement the PeopleSoft password configuration with the PeopleSoft Tools upgrade to be completed by the end of June 2009. The original implementation timeframe of 2007 had been delayed due to a lack of sufficient resources to complete the project in a timely manner. The status of this matter will be reviewed in fiscal year 2009.

XII. ACTIVITY METRICS (2006)

IT activities are not periodically evaluated against defined metrics and reported to senior management. It is through a defined set of activity metrics, such as network and application up-time, transactional processing time, and helpdesk response time, that the performance of the IT organization can be measured and tracked. Without defining the expectations of the IT organization, it is difficult to ascertain performance from year-to-year. The Department's Operations and Engineering Divisions, in conjunction with the functional user departments should identify and establish a defined set of IT activity metrics upon which the divisions are rated. These metrics should be periodically reported to senior management.

Management's Response:

Management is in agreement. The agency understands the importance of the activity metrics in measuring and tracking the performance of the service deliverables and has plans to begin working on metrics and procedures by June 2007.

Status:

The Department is currently finalizing performance measures for the entire organization. The State's recent freeze on the use of retired annuitants delayed the implementation. The revised completion date is January 31, 2009 for implementing the performance measures program for DTS. The status of this matter will be reviewed in fiscal year 2009.

STATE OF CALIFORNIA
DEPARTMENT OF TECHNOLOGY SERVICES
SCHEDULE OF UNCORRECTED MISSTATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Impact of Adjustments on Financial Statements - Increase (Decrease)
Amounts Expressed in Thousands

Description (Nature) of Audit Difference	Statement of Net Assets: Assets	Statement of Net Assets: Liabilities	Statement of Net Assets: Net Assets	Changes of Net Assets: Current Year	Changes of Net Assets: Prior Year	Changes of Net Assets: Total
Capitalize assets inapropriately expensed (2008)	$ 62	$ -	$ -	$ (62)	$ -	$ (62)
To capitalize repairs and maintenance costs inappropriately expensed (2007)	149	-	149	-	(38)	(38)
Subtotal	$ 211	$ -	$ 149	$ (62)	$ (38)	$ (100)
Financial statement amounts	$ 184,432	$ 110,465	$ 184,432			$ (36,673)
Impact as a percentage of financial statement amounts	0.11%	0.00%	0.08%			0.27%